

**FINANCIAL AND COMPLIANCE
AUDIT OF THE STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
ADMINISTRATION DIVISION**

FOR THE YEAR ENDED JUNE 30, 2006

Submitted by
The Auditor
State of Hawaii



CERTIFIED
PUBLIC
ACCOUNTANTS

January 31, 2007

The Auditor
State of Hawaii

Herein we submit our report on the financial statements of the Administration Division, Department of Transportation, State of Hawaii, (Administration Division) as of and for the year ended June 30, 2006. The audit was performed in accordance with our agreement with the Auditor - State of Hawaii dated June 8, 2005 and with the requirements of the U. S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Administration Division's financial statements as of and for the year ended June 30, 2006, in accordance with the requirements of OMB Circular A-133.

More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the financial statements of the Administration Division.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Administration Division is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the Administration Division's internal control is adequate in assuring that there are effective controls over the proper accounting of revenues, expenditures, assets, and liabilities.

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4. To determine, whether the Administration Division has established sufficient internal controls to properly manage federal financial assistance programs and to comply with applicable federal laws and regulations.
5. To determine whether the Administration Division has complied with the laws, regulations, contracts, and grants that may have a material effect on the financial statements and, on each major federal financial assistance program.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Administration Division for the year ended June 30, 2006.

Organization of the Report

This report is presented in three parts as follows:

- The Management's Discussion and Analysis
- The financial statements and related notes of the Administration Division as of and for the year ended June 30, 2006, and our opinion on the financial statements.
- Our report on compliance and on internal control over financial reporting.
- The schedule of finding and questioned costs
- Corrective action plan.

We would like to express our appreciation to the personnel of the Administration Division and in particular to the Business Management Office staff, for the assistance and cooperation we received during the course of our audit.

Yours truly,

ENDO & COMPANY



**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

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**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2006

This section of the Administration Division, Department of Transportation, State of Hawaii (Administration Division) annual financial report presents management's discussion and analysis of the Administration Division's financial performance during the fiscal year that ended on June 30, 2006. It should be read in conjunction with the Administration Division's financial statements, which follows this section.

Financial Highlights

- The Administration Division's total net assets was \$2,028,000 in fiscal year ended June 30, 2006 which increased by \$145,000 or 7.7% over June 30, 2005. The slight increase is attributable to an increase in investment earnings and a decrease in prior years' assessments returned to the other divisions.
- The Administration Division's investment in capital assets was \$1,820,000 in fiscal year ended June 30, 2006 which decreased by \$493,000 or 10.7% over June 30, 2005. The decrease is mainly due to depreciation expense of approximately \$471,000 charged to operations.
- The Administration Division's current liabilities was \$4,629,000 in fiscal year ended June 30, 2006 which increased approximately \$654,000 over June 30, 2005. The increase was principally a result of an increase in amounts due to other divisions and funds, offset by a decrease in deferred revenues and accrued vacation.
- Revenues increased by approximately \$13 million from \$15 million in fiscal year ended June 30, 2005 to \$28 million in fiscal year ended June 30, 2006. The increase was primarily attributable to an increase in federal grants revenues.

Overview of the Financial Statements

The financial statements consist of three parts: management's discussion and analysis, the financial statements and notes to financial statements and other reports, including a schedule of findings and questioned costs, and the Administration Division's corrective action plan. These components are described below:

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2006

Overview of the Financial Statements (continued)

Government-Wide Financial Statements

The government-wide financial statements reports information about the Administration Division as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net Assets* provides both short-term and long-term information about the Administration Division's financial position, which reflects the Administration Division's financial condition at the end of the fiscal year. All of the current year's revenues and expenditures are accounted for in the *Statement of Activities* on the accrual basis of accounting.

The *Statement of Net Assets* presents the Administration Division's assets and liabilities, with the difference between the two reported as "net assets". This statement reflects the financial position of the Administration Division as of the last day of its fiscal year.

The *Statement of Activities* reflects operations of the Administration Division during the fiscal year and the resultant change in the net assets.

Fund Financial Statements

The fund financial statements provide detailed information about the Administration Division's significant funds. A fund is a grouping of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are either reported as a major fund or a non-major fund. The Governmental Accounting Standard Board (GASB) issued Statement 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major fund is in a column in the funds financial statements entitled "Other Governmental Funds".

The Administration Division has two types of funds:

- Governmental Funds:

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2006

Special Revenue Funds were established to account for the contracts that the State entered into for the Administration Division with the U. S. Department of Transportation, Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and those between the Administration Division and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

• **Fiduciary Funds:**

Agency Fund - The Agency Fund is used to account for assets held by the Administration Division in an agency capacity for other divisions of the Department of Transportation (DOT). These assets include receipts of bid deposits for contracts with the DOT and restricted AMTRAK funds in accordance with the Taxpayer Relief Act of 1997. These assets can only be used or applied if certain requirements are met. The Administration Division's fiduciary activities are reported in a separate "Statement of Fiduciary Net Assets". These activities are excluded from the Administration Division's basic financial statements because the Administration Division cannot use these assets to finance its operations.

Notes to Financial Statements

The *Notes to Financial Statements* provide additional disclosures for the information reflected in the financial statements, which is essential to understand the financial data provided in the government-wide and fund financial statements.

Other Reports

Following the *Notes to Financial Statements* is the *Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* and a *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*.

Government-Wide Financial Analysis

As previously mentioned, the *Statement of Net Assets* reflects the Administration Division's financial condition at the end of the fiscal year. As of June 30, 2006, the Administration Division's total net assets was approximately \$2,028,000.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2006

Overview of the Financial Statements (continued)

The following presents a summarized comparison of net assets and the changes in net assets between the fiscal years ended June 30, 2006 and 2005.

Statement of Net Assets
June 30, 2006 and 2005
(Rounded to nearest \$1,000)

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 5,884,000	\$ 4,467,000
Capital assets, net of depreciation	<u>1,826,000</u>	<u>2,319,000</u>
Total Assets	<u>\$ 7,710,000</u>	<u>\$ 6,786,000</u>
Liabilities:		
Current liabilities	4,629,000	3,975,000
Long-term liabilities	<u>1,053,000</u>	<u>928,000</u>
Total Liabilities	<u>5,682,000</u>	<u>4,903,000</u>
Net Assets:		
Invested in capital assets	1,826,000	2,319,000
Restricted	3,339,000	2,680,000
Unrestricted (deficit)	<u>(3,137,000)</u>	<u>(3,116,000)</u>
Total Net Assets	<u>2,028,000</u>	<u>1,883,000</u>
Total Liabilities and Net Assets	<u>\$ 7,710,000</u>	<u>\$ 6,786,000</u>

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2006

Overview of the Financial Statements (continued)

Net assets of the Administration Division increased by \$145,000 or 7.7% in fiscal years ended June 30, 2006 and \$414,000 or 28.2% in fiscal year ended June 30, 2005. Investment in capital assets (i.e. furniture and fixtures) and restricted funds for transportation projects, represents a large portion of the Administration Division's net assets. The Administration Division uses these capital assets for the benefit and use by government agencies; consequently, these assets are not available for future spending and cannot be used to liquidate any liabilities. The remaining restricted assets of approximately \$3.3 million and \$2.7 million in fiscal years ended June 30, 2006 and 2005, respectively, represents resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted assets reflected a deficit of approximately \$3.1 million in fiscal years ended June 30, 2006 and 2005, respectively.

The changes in net assets reflect the Administration Division's current fiscal year's revenues and expenses on the accrual basis of accounting.

**Changes in Net Assets
For the Years Ended June 30, 2006 and 2005
(Rounded to nearest \$1,000)**

	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenues:		
Federal grants revenues	\$14,896,000	\$ 1,842,000
Investment earnings and others	200,000	167,000
Assessments	<u>12,949,000</u>	<u>13,308,000</u>
Total Revenues	28,045,000	15,317,000

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2006

Overview of the Financial Statements (continued)

Changes in Net Assets
For the Years Ended June 30, 2006 and 2005
(Rounded to nearest \$1,000)

	<u>2006</u>	<u>2005</u>
Total Expenses	<u>25,755,000</u>	<u>12,425,000</u>
Excess Before Transfers	2,290,000	2,892,000
Transfers	<u>(2,145,000)</u>	<u>(2,478,000)</u>
Change in Net Assets	145,000	414,000
Net Assets, beginning of year	<u>1,883,000</u>	<u>1,469,000</u>
Net Assets, end of year	<u>\$ 2,028,000</u>	<u>\$ 1,883,000</u>

Approximately 46.2% and 86.9% of revenues in fiscal years ended June 30, 2006 and 2005, respectively, came from assessments for the operations of the administration of DOT's various divisions.

Budgetary Analysis

The annual budget for the Administration Division is based on assessments to the Harbors, Highways and Airports Divisions. The significant differences between budgeted and actual revenues and expenditures in the Special Funds were primarily attributed to the federal grant programs. Total revenues were approximately \$8,593,000 or 23.5% below budget, and total expenditures were approximately \$11,228,000 or 30.7% below budget.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2006

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006 and 2005 respectively, the Administration Division had invested approximately \$1.8 million and \$2.3 million, net of accumulated depreciation of approximately \$2.1 million and \$2.3 million respectively, in furniture and fixtures. Net capital assets decreased by approximately \$493,000 in fiscal year ended June 30, 2006 and increased by approximately \$919,000 in fiscal year ended June 30, 2005.

Net capital assets (Rounded to nearest \$1,000) are accounted for as follows:

	<u>2006</u>	<u>2005</u>
Capital assets:		
Furniture and Equipment	\$ 3,905,000	\$ 4,612,000
Less accumulated depreciation	<u>2,079,000</u>	<u>2,293,000</u>
Total capital assets, net	<u>\$ 1,826,000</u>	<u>\$ 2,319,000</u>

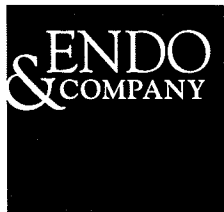
Debt Administration

The Administration Division did not have any debt financing during the fiscal years ended June 30, 2006 and 2005, respectively.

Currently Known Decisions and Facts

Subsequent to the end of the current fiscal year, the Administration Division has been awarded approximately \$11,040,000 in Federal Transit Administration grants and \$765,000 in Federal Highway Administration grants.

REPORT ON THE FINANCIAL STATEMENTS



CERTIFIED
PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the

**ADMINISTRATION DIVISION,
DEPARTMENT OF TRANSPORTATION,
STATE OF HAWAII (Administration Division),**

as of and for the year ended June 30, 2006, which collectively comprise the Administration Division's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Administration Division's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note (1) to the financial statements, the financial statements of the Administration Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Administration Division.

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They do not purport to, and do not, present the financial position of the State of Hawaii as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Administration Division as of June 30, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2007, on our consideration of the Administration Division's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages (1) to (7) and (29) respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Administration Division's basic financial statements. The introductory section, combining and individual non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Administration Division. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

End of Company

January 31, 2007
Honolulu, Hawaii

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Statement of Net Assets - Governmental Activities

June 30, 2006

ASSETS

Current assets	
Cash and cash equivalents	\$ 5,281,311
Accounts receivable	<u>602,502</u>
Total current assets	<u>5,883,813</u>
Capital assets, net of depreciation	<u>1,826,447</u>
Total Assets	<u>7,710,260</u>

LIABILITIES

Current liabilities	
Accounts payable	682,718
Accrued payroll	273,941
Accrued vacation	299,273
Deferred revenues	34,278
Due to other divisions and funds	<u>3,339,227</u>
Total current liabilities	<u>4,629,437</u>
Long-term liabilities	
Due to General Fund	2,550
Accrued vacation	<u>1,050,195</u>
Total long-term liabilities	<u>1,052,745</u>
Total Liabilities	<u>5,682,182</u>

NET ASSETS

Invested in capital assets	1,826,447
Restricted for:	
Transportation projects	3,339,227
Unrestricted (deficit)	<u>(3,137,596)</u>
Total Net Assets	<u>\$ 2,028,078</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Statement of Activities

For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental activities:			
Administration	\$ 10,860,226	\$ -	\$ (10,860,226)
Operating grants	<u>14,895,676</u>	<u>-</u>	<u>(14,895,676)</u>
Total governmental activities	<u>25,755,902</u>	<u>-</u>	<u>(25,755,902)</u>
General revenues:			
Assessments			12,949,386
Federal grant revenues			14,895,674
Investment earnings			184,866
Miscellaneous			<u>15,001</u>
Total general revenues			<u>28,044,927</u>
			2,289,025
Other financing sources - Transfers, net			<u>(2,144,588)</u>
Change in net assets			144,437
Net assets, beginning of year			<u>1,883,641</u>
Net assets, end of year			<u>\$ 2,028,078</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Balance Sheet - Governmental Funds

June 30, 2006

	Admin Fund	S - 210	Restricted Funds			Other Governmental Funds	Total Governmental Funds
			S - 256	S - 257	S - 258		
ASSETS							
Cash and cash equivalents	\$ 3,616,051	\$1,000,000	\$ 399,988	\$ 6,325	\$ 223,592	\$ 35,345	\$ 5,281,301
Accounts receivable	<u>602,512</u>	-	-	-	-	-	<u>602,512</u>
TOTAL ASSETS	<u>\$ 4,218,563</u>	<u>\$1,000,000</u>	<u>\$ 399,988</u>	<u>\$ 6,325</u>	<u>\$ 223,592</u>	<u>\$ 35,345</u>	<u>\$ 5,883,813</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	682,718	-	-	-	-	-	682,718
Accrued payroll	273,941	-	-	-	-	-	273,941
Deferred revenue	-	-	-	-	-	34,278	34,278
Due to General Fund	2,550	-	-	-	-	-	2,550
Due to other divisions	<u>3,339,227</u>	-	-	-	-	-	<u>3,339,227</u>
TOTAL LIABILITIES	<u>4,298,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,278</u>	<u>4,332,714</u>
FUND BALANCES							
Reserved for							
Encumbrances	1,677,072	(157,891)	-	137,110	(296,653)	-	1,359,638
Unrestricted	<u>(1,756,945)</u>	<u>1,157,891</u>	<u>399,988</u>	<u>(130,785)</u>	<u>520,245</u>	<u>1,067</u>	<u>191,461</u>
TOTAL FUND BALANCES	<u>(79,873)</u>	<u>1,000,000</u>	<u>399,988</u>	<u>6,325</u>	<u>223,592</u>	<u>1,067</u>	<u>1,551,099</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,218,563</u>	<u>\$1,000,000</u>	<u>\$ 399,988</u>	<u>\$ 6,325</u>	<u>\$ 223,592</u>	<u>\$ 35,345</u>	<u>\$ 5,883,813</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

**Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets**

June 30, 2006

Total Fund Balance- Governmental Funds	\$ 1,551,099
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Amounts reported for governmental activities are different in the
Statement of Net Assets because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	1,826,447
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Accrued employee benefits payable are not reported in the governmental funds	<u>(1,349,468)</u>
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Net Assets of Governmental Activities	<u>\$ 2,028,078</u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

**Statement of Revenues,
Expenditures, and Changes in Fund
Balances Governmental Funds**

For the Year Ended June 30, 2006

	Admin Fund	Restricted Funds				Other Governmental Funds	Total Governmental Funds
		S - 210	S - 256	S - 257	S - 258		
REVENUES							
Assessments	\$12,949,386	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,949,386
Federal grant revenues	-	12,808,023	171,556	482,207	1,433,888	-	14,895,674
Other	<u>199,867</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,867</u>
	<u>13,149,253</u>	<u>12,808,023</u>	<u>171,556</u>	<u>482,207</u>	<u>1,433,888</u>	<u>-</u>	<u>28,044,927</u>
EXPENDITURES							
Personal Services	6,476,147	-	81,859	36,567	68,791	-	6,663,364
Others	<u>3,901,424</u>	<u>12,808,023</u>	<u>89,697</u>	<u>445,640</u>	<u>1,365,097</u>	<u>1,433</u>	<u>18,611,314</u>
	<u>10,377,571</u>	<u>12,808,023</u>	<u>171,556</u>	<u>482,207</u>	<u>1,433,888</u>	<u>1,433</u>	<u>25,274,678</u>
EXCESS(DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,771,682	-	-	-	-	(1,433)	2,770,249
OTHER FINANCING SOURCES(USES)							
Transfer in	-	-	403,659	6,325	133,243	-	543,227
Transfer out	(3,339,227)	-	(403,659)	(6,325)	(133,243)	(1,987)	(3,884,441)
Others	<u>197,491</u>	<u>1,000,000</u>	<u>(3,671)</u>	<u>-</u>	<u>306</u>	<u>2,500</u>	<u>1,196,626</u>
NET CHANGE IN FUND BALANCES	(370,054)	1,000,000	(3,671)	-	306	(920)	625,661
FUND BALANCES, at July 1, 2005	<u>290,181</u>	<u>-</u>	<u>403,659</u>	<u>6,325</u>	<u>223,286</u>	<u>1,987</u>	<u>925,438</u>
FUND BALANCES, at June 30, 2006	<u>\$ (79,873)</u>	<u>\$ 1,000,000</u>	<u>\$ 399,988</u>	<u>\$ 6,325</u>	<u>\$ 223,592</u>	<u>\$ 1,067</u>	<u>\$ 1,551,099</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

**Reconciliation of the Governmental Funds Statement
of Revenues, Expenditures, and Changes in Fund
Balances to the Statement of Activities**

For the Year Ended June 30, 2006

Total Net Change in Fund Balances - Governmental Funds **\$ 625,661**

Amounts reported for governmental activities in the *Statement of Activities* are different because:

Governmental funds report capital asset outlays as expenditures. However, in the *Statement of Activities* the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital asset outlays net of reimbursements exceeded depreciation expense in the current period.

Capital asset outlays	\$ 81,055	
Less disposals, net	<u>(103,611)</u>	
	(22,556)	
Depreciation expense	<u>(470,545)</u>	
Excess of capital asset outlays over depreciation expense		(493,101)

The net change in obligations for accrued vested vacation benefits is reported in the *Statement of Activities*, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.

11,877

Change in Net Assets of Governmental Activities **\$ 144,437**

The accompany Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Statement of Fiduciary Net Assets

June 30, 2006

ASSETS

Cash and cash equivalents	\$ <u>9,571,851</u>
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TOTAL ASSETS	\$ <u>9,571,851</u>
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LIABILITIES

Bid Bond Deposits	\$ 8,128
Amtrak Funds Payable	<u>9,563,723</u>

TOTAL LIABILITIES	\$ <u>9,571,851</u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(1) Organization and Reporting Entity

Background - The Department of Transportation of the State of Hawaii, was formed shortly after Hawaii became a state in 1959. It has three division, Airports, Harbors and Highways, which are supported by 10 departmental staff offices. The Administration Division, Department of Transportation, State of Hawaii (Administration Division), consist of the Office of the Director of Transportation, Departmental Staff Services Offices, and the Statewide Transportation Planning Office. Collectively, these offices provide the overall administrative support of the Department of Transportation.

The Statewide Transportation Planning Office (STP) is responsible for the administration of certain Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) federal grants awarded to the Department of Transportation.

Reporting Entity - The Administration Division's financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all of the State's funds and publishes financial statements for the State annually, which includes the Administration Division's financial activities.

(2) Summary of Significant Accounting Policies

The accompanying financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies followed by the Administration Division:

Measurement Focus and Basis of Accounting

Government - Wide Financial Statements - The economic resources measurement focus and the accrual basis of accounting are used to present the government - wide financial

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(2) Summary of Significant Accounting Policies (continued)

statements (*Statement of Net Assets and Statement of Activities*). Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

- **Statement of Net Assets** - The *Statement of Net Assets* includes capital assets and long-term liabilities that are excluded from the governmental funds financial statements. The net assets are reported in three categories: invested in capital assets, net of related debt; restricted; and unrestricted.
- **Statement of Activities** - The *Statement of Activities* reports expenses and revenues in a format that focuses on the cost of the Administration Division's programs. Revenues are classified as either program revenues or general revenues. Program revenues include grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Revenues that are not classified as program revenues are presented as general revenues.

Governmental Funds Financial Statements - The current financial resources measurement focus and the modified accrual basis of accounting are used by the governmental funds and the Agency Fund. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they are measurable and available. *Measurable* means that the amount of the transaction can be determined and *available* means that the amount is collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Administration Division considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the fiscal year.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(2) Summary of Significant Accounting Policies (continued)

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures and expenditures related to claims and judgments, are recorded only when payment is due.

Fund Accounting - The accounts of the Administration Division are organized on the basis of funds, each of which are considered to be separate accounting entities. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The financial activities of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures, as appropriate.

The Administration Division's funds are classified into two broad categories: *Governmental and Fiduciary*. Each category is subdivided into *fund type*.

Governmental Fund Type

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds were established to account for the contracts that the State entered into for the Administration Division with the U. S. Department of Transportation, Federal Highways Administration (FHWA), Federal Transit Administration (FTA) and those between the Administration Division and FTA prior to the enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(2) Summary of Significant Accounting Policies (continued)

Fiduciary Fund Type

Agency Fund - The Agency Fund is used to account for assets held by the Administration Division in an agency capacity. These assets include the receipt of bid deposits for contracts with the Department of Transportation (DOT) and restricted AMTRAK fund in accordance with the Taxpayer Relief Act of 1997. These assets can only be used or applied if certain requirements are met. The Administration Division's fiduciary activities are reported in a separate "Statement of Fiduciary Net Assets". These activities are excluded from the Administration Division's basic financial statements because the Administration Division cannot use these assets to finance its operations.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. The Administration Division reports encumbrances outstanding at fiscal year end as reservations of fund balances since they do not constitute expenditures or liabilities. The commitments will be honored in the subsequent fiscal year.

Assessment Revenues - In accordance with Section 30, Chapter 36, of the Hawaii Revised Statutes (HRS), the Administration Division reports as assessment revenues a percentage of the Airports, Harbors, and Highways Divisions' State allotted appropriations for the cost of the general administration expenses of the DOT.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(2) Summary of Significant Accounting Policies (continued)

On a quarterly basis, the divisions of DOT transfers their pro-rata share of their budgetary appropriation to cover their share of the operating expenses incurred by the Administration Division. The unencumbered cash balances at the end of each fiscal year is transferred back to the respective divisions in accordance with their pro-rata share percentage. Included in the Statement of Net Assets, *Due to Other Divisions and funds* of \$3,339,227 is \$900,470 of unencumbered cash balances due to the other divisions of the DOT as of June 30, 2006 and a short-term advance from the Highway division of \$1,000,000. The \$2,144,588 reflected as *Other financing sources - Transfers, net* is the amount of unencumbered cash balances transferred back to the other divisions and other funds during 2006.

Interfund and Intrafund Transfers - Significant transfers of financial resources between activities within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the financial statements.

Cash, Cash Equivalents, and Investments - The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the Administration Division, which in the Director's judgment are in excess of the amounts necessary for meeting the specific requirements of the Administration Division. Investment earnings are allocated to the Administration Division based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U. S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

For financial statement reporting purposes cash and cash equivalents consist of cash, time certificates of deposits, and money market accounts. Cash and short-term investments also includes repurchase agreements and U. S. government securities with original maturities of three months or less.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(2) Summary of Significant Accounting Policies (continued)

Capital Assets - Capital assets are defined by the Administration Division as furniture and equipment and those assets with estimated useful lives greater than one year and acquisition costs greater than \$5,000.

Purchased and constructed assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are recorded as expense in the current period. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts with any resulting gain or loss reflected in operations.

Depreciation - Depreciation expense is recorded in the *Statement of Activities*. The Administration Division utilizes the straight-line method over the assets' estimated useful lives. No depreciation is recorded for land and construction in progress. The estimated useful lives for furniture and equipment is 7 years.

Vacation Pay - The Administration Division's employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Employees who are entitled to annual vacation may accumulate, for the succeeding year or years, up to fifteen working days of their annual vacation allowance to a maximum of ninety days. Accumulated vacation leave, earned but not taken, is reflected as an accrued liability based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in the *Statement of Net Assets*, in accordance GASB Statement No. 16, *Accounting for Compensated Absences*. When termination of employment takes place, employees are paid their vacation allowance in a lump sum.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(3) Budgeting and Budgetary Control

The Administration Division follows these procedures in establishing the budgetary data reflected in the financial statements:

- **Budget** - Not less than 20 days before the Legislature convenes in every odd-numbered year, the Governor submits to the Legislature, and to each member thereof, a budget which contains the program and budget recommendations of the Governor for the succeeding two fiscal years. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next two fiscal years to carry out the recommended programs; a summary of the State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress, and an estimate for the succeeding biennium.
- **Legislative Review** - The Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's proposed recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance (B&F) and any agency to conduct such analysis of programs and finances as well as assist in determining the State's program and financial plan and budget.
- **Program Execution** - Except as limited by policy decisions of the Governor, appropriations by the Legislature, and other provisions of law, the several agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriation act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the Legislature.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(3) Budgeting and Budgetary Control (continued)

The budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The actual results of operations are presented on the budgetary basis in the budgetary comparison statement (non-GAAP budgetary basis) to provide a meaningful comparison of actual results to the budget.

The major differences between the budgetary and GAAP basis are: encumbrances are recorded as the equivalent of expenditures as opposed to a reservation of fund balance; federal grant revenues are recognized when received; and expenditures relating to accrued liabilities are recognized when paid.

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2006 from the GAAP basis to the budget basis are as follows:

Net change in fund balance	\$ <u>625,661</u>
Increase (decrease) in revenues:	
Current year's receivables	(602,512)
Prior year's receivables	508,272
Current year's deferred revenues	34,278
Prior year's deferred revenues	<u>(145,497)</u>
	<u>(205,459)</u>
Increase(decrease) in expenditures:	
Current year's accrued liabilities	(959,209)
Prior year's accrued liabilities	861,195
Current year's encumbrance	1,359,638
Prior year's encumbrance, net of adjustments	<u>(1,331,590)</u>
	<u>(69,966)</u>
Excess of expenditures over revenues and transfers, budgetary basis	\$ <u><u>490,168</u></u>

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(4) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Capital assets:				
Furniture and equipment	\$ 4,612,239	\$ 81,055	\$ 788,187	\$ 3,905,107
Less accumulated depreciation	<u>2,292,691</u>	<u>470,545</u>	<u>684,576</u>	<u>2,078,660</u>
Total capital assets, net	<u>\$ 2,319,548</u>	<u>\$ (389,490)</u>	<u>\$ 103,611</u>	<u>\$ 1,826,447</u>

(5) Retirement Benefits

All eligible employees of the Administration Division are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to July 1, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new non-contributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including vacation payment, if the employee

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION-
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(5) Retirement Benefits (continued)

became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003, is based on the three highest paid years of service, excluding the vacation payments.

On July 1, 2006, a new hybrid contributory plan will become effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. All members of the noncontributory plan and certain members of the contributory plan, will be eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Most covered employees are required to contribute 7.8% of their salary to the contributory option and 6% to the hybrid option. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a department or agency basis.

(6) Post-Retirement Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than ten years of credited service.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(6) Post-Retirement Benefits (continued)

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

Also, free life insurance coverage for retired employees and free dental coverage for dependents under age 19 are available. Retirees covered by medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are financed on a pay-as-you-go basis. The Administration Division's share of the expense for post-retirement benefits for the fiscal year ended June 30, 2006 was \$325,921.

Effective July 1, 2003, the EUTF replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

(7) Contingencies

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2006, accumulated sick leave, based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, was \$4,696,381.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2006

(7) Contingencies (continued)

Reserve for Losses

The Administration Division has retained all risks of loss for unemployment and workers' compensation claims. An estimate of the expense for such claims, if any, is not included in the financial statements, since the amounts of loss cannot be reasonably estimated. Claims are expensed when incurred. There were no payments for unemployment and workers' compensation claims during the fiscal year ended June 30, 2006.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of the State's general creditors. The State has no responsibility for losses incurred by the trust fund, but does have the duty of due care that would be required of an ordinary prudent investor.

SUPPLEMENTARY FINANCIAL INFORMATION

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

**Budgetary Comparison Statement (Non-GAAP
Budgetary Basis) - Special Revenue Fund**

Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Revenues			
Assessments	\$ 13,696,886	\$ 12,946,886	\$ (750,000)
Federal grant revenue	22,500,886	14,847,203	(7,653,683)
Other	<u>423,463</u>	<u>234,145</u>	<u>(189,318)</u>
Total revenues	<u>36,621,235</u>	<u>28,028,234</u>	<u>(8,593,001)</u>
Expenditures			
Personal services	8,282,631	6,743,345	1,539,286
Other	<u>28,338,604</u>	<u>18,650,133</u>	<u>9,688,471</u>
Total expenditure	<u>36,621,235</u>	<u>25,393,478</u>	<u>11,227,757</u>
Excess of revenues Over expenditures	-	2,634,756	2,634,756
Transfers to others	<u>-</u>	<u>(2,144,588)</u>	<u>(2,144,588)</u>
Excess of revenues over expenditures and transfers	<u>\$ -</u>	<u>\$ 490,168</u>	<u>\$ 490,168</u>

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Schedule of Expenditures of Federal Awards

June 30, 2006

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>
Federal Transit Administration:				
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas:	20.509			
10/01/91 - 09/30/92		HI-18-X009	\$ 267,819	\$ -
10/01/92 - 09/30/93		HI-18-X010	475,519	-
10/01/93 - 09/30/94		HI-18-X011	1,704,732	-
10/01/94 - 09/30/95		HI-18-X012	2,950,903	15,959
10/01/95 - 09/30/96		HI-18-X013	1,555,297	7,788
10/01/96 - 09/30/97		HI-18-X014	490,991	-
10/01/97 - 09/30/00		HI-18-X016	513,066	8,872
03/30/99 - 12/31/03		HI-18-X017	588,653	-
09/01/99 - 12/31/00		HI-18-X019	770,187	67,419
09/29/00 - 10/31/01		HI-18-X020	710,639	-
09/30/02 - 10/31/05		HI-18-X021	1,493,939	87,011
09/30/03 - 10/31/06		HI-18-X022	2,034,065	485,557
09/30/04 - 10/31/05		HI-18-X023	1,072,343	284,800
09/30/05 - 10/31/06		HI-18-X024	<u>1,118,873</u>	<u>370,237</u>
			<u>15,747,026</u>	<u>1,327,643*</u>
 Capital improvement grant to assist in financing the acquisition, construction reconstruction, and improvement of facilities, rolling stock and equipment for use in mass transportation in urban areas				
	20.500			
09/30/01 - 10/31/02		HI-03-0027	408,000	106,245
09/30/03 - 10/31/04		HI-03-0032	4,846,159	4,846,159
09/30/04 - 10/31/05		HI-03-0033	4,028,825	2,280,877
09/30/04 - 10/31/05		HI-03-0034	12,613,841	5,560,478
09/30/05 - 10/31/06		HI-03-0038	14,684,170	120,509
09/30/05 - 10/31/06		HI-03-0039	<u>4,423,358</u>	<u>-</u>
			<u>41,004,353</u>	<u>12,914,268*</u>

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

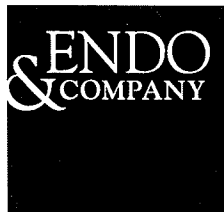
Schedule of Expenditures of Federal Awards

June 30, 2006

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>
Capital assistance grants to assist in providing transportation services for elderly and the handicapped	20.513			
09/30/00 - 10/30/01		HI-16-0027	376,045	-
09/30/01 - 10/30/02		HI-16-0028	393,408	185,321
09/30/02 - 10/30/03		HI-16-0029	421,383	296,886
09/30/03 - 10/30/04		HI-16-0030	474,109	-
09/30/04 - 10/31/05		HI-16-0031	474,925	-
09/30/05 - 10/30/06		HI-16-0032	<u>363,832</u>	<u>-</u>
			<u>2,503,702</u>	<u>482,207*</u>
Federal Highway Administration:				
Grant to assist in the development of an integrated, interconnected transportation system:	20.205			
10/01/93 - 09/30/94		CM-1500(8)	2,804,438	-
10/01/01 - 09/30/02		SPR-0010(24)	845,518	20,871
10/01/02 - 09/30/03		SPR-0010(25)	1,060,634	44,500
10/01/03 - 09/30/04		SPR-0010(26)	1,359,800	18,641
10/01/04 - 09/30/05		SPR-0010(27)	862,440	44,344
10/01/05 - 09/30/06		SPR-0010(28)	<u>602,080</u>	<u>43,200</u>
			<u>7,534,910</u>	<u>171,556</u>
Total Federal Financial Assistance			<u>\$ 66,789,991</u>	<u>\$ 14,895,674</u>

*Denotes major program expenditures

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**



CERTIFIED
PUBLIC
ACCOUNTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Auditor
State of Hawaii

We have audited the financial statements of the

**ADMINISTRATION DIVISION,
DEPARTMENT OF TRANSPORTATION,
STATE OF HAWAII (Administration Division),**

as of and for the year ended June 30, 2006, and have issued our report thereon dated January 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Administration Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under *Government Audit Standards*.

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■

Internal Control Over Financial Reporting

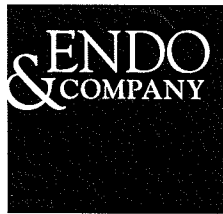
In planning and performing our audit, we considered the Administration Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Administration Division, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Company

January 31, 2007
Honolulu, Hawaii

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A- 133**



CERTIFIED
PUBLIC
ACCOUNTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A- 133**

To the Auditor
State of Hawaii

Compliance

We have audited the compliance of the

**ADMINISTRATION DIVISION,
DEPARTMENT OF TRANSPORTATION,
STATE OF HAWAII (Administration Division),**

with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Administration Division's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Administration Division's management. Our responsibility is to express an opinion on the Administration Division's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Administration Division's compliance with those requirements and

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performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Administration Division's compliance with those requirements.

In our opinion, the Administration Division complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Administration Division is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Administration Division's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management of the Administration Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 31, 2007

Endo & Company
Honolulu, Hawaii

A handwritten signature in black ink, appearing to read "Endo & Company", written in a cursive style.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Schedule of Prior Year Audit Findings and Questioned Cost

Year Ended June 30, 2006

Status of Prior Year Comments

There were no audit findings and questioned costs reported for the year ended June 30, 2005.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Schedule of Audit Findings and Questioned Cost

Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued

- | | |
|--|----------------------|
| 1. Internal control over financial reporting: | <u>Unqualified</u> |
| 2. Material weaknesses identified? | <u>No</u> |
| Reportable condition identified that is not considered
to be material weakness? | <u>None reported</u> |
| 3. Noncompliance material to financial statements noted? | <u>No</u> |

Federal Awards:

- | | |
|---|----------------------|
| 1. Internal control over major program:
Material weaknesses identified? | <u>No</u> |
| Reportable condition identified that is not considered
to be material weakness? | <u>None reported</u> |
| 2. Type of auditor's report issued on compliance for
major program: | <u>Unqualified</u> |
| 3. Any audit findings disclosed that are required to be
reported in accordance with Section 510(a) of
Circular A-133? | <u>No</u> |

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION
Schedule of Audit Findings and Questioned Cost**

Year Ended June 30, 2006

Section I - Summary of Auditor's Results (continued)

4. Identification of major program:

a. 20.509 - Federal Transit Administration: Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas; 20.513 - Federal Transit Administration: Capital assistance grants to assist in providing transportation services for the elderly and the handicapped; 20.500 - Federal Transit Administration: Financial, operating, and technical assistance in providing mass transportation service in urban areas.

b. Dollar threshold used to distinguish between type A and type B programs:

\$300,000

c. Auditee qualified as low-risk auditee?

Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

CORRECTIVE ACTION PLAN

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Corrective Action Plan

June 30, 2006

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2006.